

D.P.U. 96-53

Application of Boston Edison Company, pursuant to G.L. c. 164 App., §§ 2-1 through 2-10 and 220 C.M.R. §§ 7.00 et seq., for approval by the Department of Public Utilities of the Company's proposed operating budget and applicable monthly surcharge for the Residential Energy Conservation Service program for fiscal year 1997 (July 1, 1996 through June 30, 1997).

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Petitioner

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FOR: DIVISION OF ENERGY RESOURCES
Intervenor

I. INTRODUCTION

On April 30, 1996, pursuant to G.L. c. 164 App., §§ 2-1 through 2-10 and 220 C.M.R. §§ 7.00 et seq., Boston Edison Company ("BECo" or "Company") filed with the Department of Public Utilities ("Department") a petition for approval by the Department of the Company's proposed operating budget of \$1,386,370 with reconciliations of under- and over-collections from prior fiscal years resulting in a net amount to be collected of \$1,246,582, and applicable monthly surcharge of \$0.15¹ for the residential energy conservation service ("ECS") program² for the fiscal year July 1, 1996 through June 30, 1997 ("FY 1997"). The petition was docketed as D.P.U. 96-53.

Pursuant to notice duly issued, a hearing was held at the offices of the Department on May 22, 1996. The Department granted the petition for leave to intervene filed by the Commonwealth of Massachusetts, Executive Office of Economic Affairs, Division of Energy Resources ("DOER"). No other petitions for leave to intervene were filed.

In support of its petition, the Company sponsored the testimony of one witness: Agnes E. Hagopian, ECS program manager at BECo. DOER sponsored the testimony of India Hoeschen-Stein, program coordinator for residential ECS programs at DOER. BECo submitted two exhibits and the DOER submitted two exhibits. The Company responded to four record requests.

¹ This figure is truncated from \$ 0.1568 (See Exh. BE-2, at III-1.1).

² The ECS program consists of a one-to-four unit residential plan and a multifamily building program.

II. STATUTORY HISTORY

In response to the mandates of the National Energy Conservation Policy Act of 1978, the Commonwealth of Massachusetts enacted St. 1980, c. 465, codified as G.L. c. 164 App., §§ 2-1 through 2-10, to establish the ECS program and to require all electric and gas utilities in Massachusetts to offer on-site energy conservation and renewable energy resource services to their customers, thereby encouraging citizens to take steps immediately to improve the energy efficiency of all residential buildings in Massachusetts. G.L. c. 164 App., § 2-2. The statute requires each utility to provide certain energy conservation services through individual or joint efforts in conformance with an overall state plan. Id.

Pursuant to the statute, DOER must adopt a state plan and promulgate regulations necessary to implement that plan.³ Id., § 2-3(a). Specifically, DOER is responsible for: (1) establishing residential energy and conservation goals; (2) establishing ECS program guidelines; (3) monitoring the implementation of the program requirements; and (4) overseeing the implementation of the state plan by approving a utility implementation plan ("UIP"). Each utility must submit a UIP to DOER annually. After a utility receives annual approval of its UIP from DOER, the utility must submit its proposed ECS program operating budget and proposed ECS surcharge for the upcoming fiscal year to the Department for review. Id., § 2-7(b).

³ Prior to 1989, DOER required utilities to offer a commercial energy conservation service program for businesses and other commercial customers; however, DOER eliminated that requirement when the Department required the implementation of demand-side management programs that are geared toward commercial customers. Commonwealth Gas Company, D.P.U. 92-116, at 3 (1992).

III. COMPANY PROPOSAL

A. Establishment of ECS Program Goals

According to DOER, key issues for the FY 1997 ECS program are (1) completion of, and review of the results of the first comprehensive evaluation of the ECS program, which should be available before the planning process for the FY 1998 ECS program begins, and (2) coordination of ECS and demand-side management ("DSM") programs in an effort to optimize use of the ECS audit site visit (Exh. DOER-2, at 2-3). DOER identified goals for two areas of the one-to-four Unit Building and Multifamily Building ("MFB") ECS programs in FY 1997: (1) specific numerical targets for audits and equivalent services; and (2) the coordination of ECS service delivery with the delivery of Weatherization Assistance Programs ("WAP")⁴ (id. at 1-2). In addition, DOER emphasized that utilities, in implementing their ECS programs, should pay special attention to (1) customer screening procedures, (2) quality control reporting, and (3) the content and distribution schedule of the ECS program announcement⁵ (id. at 4-5).

⁴ WAP, operated by the Executive Office of Communities and Development, provides assistance to low-income customers by combining education with the implementation of major conservation measures (Exh. DOER-2, at 2). According to DOER, coordinated ECS/WAP delivery is becoming an increasingly important resource for low-income utility customers in need of energy conservation assistance because of significant reductions in federal funding for the WAP in FY 1997 (id.).

⁵ DOER stated that in FY 1997, it will monitor closely the ECS program announcement content for comprehensiveness and clarity and its distribution schedule to ensure that ECS providers are making optimal use of the full twelve-month distribution period that was established by an amendment to the regulations governing program announcement distribution (Exh. DOER-2, at 5; see also 220 C.M.R. § 7.07).

In conference with the utilities, DOER established specific goals for the delivery of audits and equivalent services (id. at 1 and Att. 1). Equivalent services are designed to provide educational and information services and to assist customers in pursuing recommended conservation measures (id. at Att. 2). Equivalent services include (1) demonstration material installations ("DMI"),⁶ (2) major work order ("MWO") specification development services,⁷ (3) low-cost work order ("LCWO") specification development services,⁸ (4) bulk purchasing ("BP") services,⁹ (5) contractor arranging services ("CAS"),¹⁰ (6) post-installation inspections ("PII")¹¹ in homes where conservation measures were installed following an ECS audit, and (7) appliance

⁶ During ECS site visits, auditors install low-cost energy conservation materials, not to exceed \$30 in value, to demonstrate the proper application and installation of the materials (Exh. DOER-2, Att. 2, at 1). Auditors choose materials based on a "fuel-blind" assessment of the specific energy conservation needs of a dwelling as determined during the audit (id.).

⁷ An MWO specification is the preparation of a job specification sheet for a major energy conservation measure(s) recommended during an audit, which allows a customer to (1) install the measure(s) personally, (2) hire a contractor to install the measure(s), or (3) obtain complete and accurate bids from contractors to install the measure(s) using the ECS contractor arranging service (Exh. DOER-2, Att. 2, at 3).

⁸ Purchase specifications are prepared for materials for low-cost energy conservation measures such as infiltration, domestic hot water, and lighting measures (Exh. DOER-2, Att. 2, at 3-4).

⁹ BP services provide access to bulk bidding or group purchasing of conservation materials of the same type and quality demonstrated during an audit (Exh. DOER-2, Att. 2, at 4).

¹⁰ CAS provides technical assistance and guidance to a customer in selecting a contractor to install recommended conservation measures (Exh. DOER-2, Att. 2, at 4).

¹¹ DOER-approved inspectors determine on site whether the energy conservation measures that were installed are performing properly to save energy (Exh. DOER-2, Att. 2, at 5).

efficiency education services ("AEES")¹² (id. Att. 2, at 1-6). An eighth, optional service is the ECS/WAP coordination service (id. at 6-8).

Equivalent services goals are established as a percentage of audit goals (id. Att. 1). ECS audit and equivalent services goals represent minimum targets for service as well as the " 'natural level' of audit production"¹³ (id. at 1).

DOER stated that goals for ECS audits and equivalent services for each ECS service provider were generally based on requests for services over the last three years and on the anticipated impact of DSM programs on the production of audits and equivalent services (id.). DOER indicated that for four of the ECS providers, FY 1997 audit goals were set at the same levels as those for FY 1996 (id.). Minor modifications were made to the audit goals for FY 1997 for two ECS providers to reflect changes in program affiliation and available DSM programs (id.). According to DOER, minor adjustments have been made to the equivalent services levels for all ECS providers in FY 1997 (id.). DOER stated that although several utilities are anticipating changes to their multifamily DSM programs, the impact of these changes on ECS production

¹² AEES is the delivery of "fuel-blind," site-specific, appliance efficiency education at the time of the audit visit which includes, at a minimum, (1) completion and explanation of an appliance inventory checklist indicating the appliances in the home and the estimated energy use of the five highest users, (2) delivery of written and verbal education about how to use appliances efficiently, (3) delivery of written education about estimated energy costs for some common household appliances, and (4) delivery of written and verbal education about how and why to purchase energy efficient appliances (Exh. DOER-2, Att. 2, at 6).

¹³ DOER defines the "natural level" of audit production as "the audit production level generated by the program announcement coupled with other sources of requests such as utility referrals, auditor referrals, word of mouth contacts, and new customer inquiries" (Exh. DOER-2, at 1).

levels is unknown (id. at 2). Therefore, DOER has set the FY 1997 MFB audit goals at the same level as those for FY 1996 (id. at 2).

With respect to the AEES, DOER has not made any change to the goals set for this program in FY 1997 because the program has not yet been in operation for a full twelve months (id. at 1). DOER also stated that, where utility DSM programs offer customers assistance with major conservation measures, demand might be limited for certain ECS equivalent services, specifically CAS and PII (id. at 2). DOER, therefore, has given ECS program providers the option of eliminating the equivalent services goal for CAS and PII where comparable services are being provided through the utility's DSM program (id.). DOER stated, however, that program providers must still maintain the capacity to provide CAS or PII for those customers who do not qualify for, or do not wish to participate in, the utility's DSM program, and that the ECS provider must ensure that ECS and DSM costs are properly allocated (id.).

B. Audit and Equivalent Service Goals

BECO participated with DOER in goal-setting for FY 1997 and stated that its UIP for FY 1997 was approved by DOER (Exh. BE-2, at V-1). DOER set audit goals for FY 1997 for both one-to-four Unit Building and MFB ECS programs. DOER maintained the FY 1997 audit goal for one-to-four unit buildings at 8,200, and maintained the FY 1997 MFB audit goal at 300 buildings (id. at V-1, Att. 1).

DOER established equivalent service goals for one-to-four unit buildings as the following percentages of all customers audited: (1) DMI -- 95 percent; (2) MWO -- 20 percent; (3) LCWO -- 60 percent; (4) BP -- 5 percent; (5) AEES -- 10 percent; and (6) CAS and PII -

1 percent each (id.). The Company has elected to participate in the optional WAP service during FY 1997, with a goal of providing 425 ECS/WAP audits (id., Vol. 1 at I-23, 24).

The proposed budget for each fiscal year for each ECS service provider is based on the established ECS goals, detailed in the UIP, which specify levels of audits and equivalent services to be delivered by each individual utility or group of utilities (Exh. DOER-1, at 2, see also Exh. BE-2). DOER stated that it found the Company's proposed budget consistent with the ECS program objectives and the approved UIP (Exh. DOER-1, at 3-4).

C. Comparative Analysis

The Company submitted to the Department an ECS program provider budget comparison ("budget comparison") that contrasted the Company's anticipated costs for ECS implementation during FY 1997 with the anticipated costs of five other ECS providers over the same period (Exh. BE-2, at V-11.a.1).¹⁴ The five ECS providers against which the Company's ECS budget is compared include four companies individually offering ECS services to their customers, and a fifth entity, Mass-Save, Inc. contracted by a group of utility companies to provide ECS services (id.). The average cost per ECS audit for Mass-Save, Inc. was \$138.94 (id.). The remaining ECS providers offered ECS services at an average cost per ECS audit of \$113.95 to \$196.03 (id.). The average cost per FY 1997 ECS audit for BECo was \$131.96 (id.).

¹⁴ The Company submitted its ECS program provider budget comparison for program year FY 1997 in the form of a spreadsheet with eight categories of expenses listed for each ECS program provider: (1) administration/internal expenses; (2) marketing; (3) field delivery administration; (4) residential ECS FY 1996 budget; (5) ECS audit goal; (6) average cost per audit; (7) program evaluation; and (8) regulatory assessments (Exh. BE-2, at V-11.a.1).

IV. STANDARD OF REVIEW

In order for the Department to review a utility's proposed ECS program budget, the utility's budget filing must conform to Department regulations set out at 220 C.M.R. §§ 7.00 et seq. It also must meet the filing requirements enumerated in Mass-Save, Inc., D.P.U. 85-189, at 15-16 (1985).

After determining that a utility's ECS program budget filing conforms with these regulations and requirements, the Department must review the proposed budget for reasonableness and consistency with the state plan adopted by DOER and approve the budget in whole or with modification. G.L. c. 164 App., § 2-7(b). The Department has stated that, in general, expenses for the ECS program require the same level of justification as do other utility operating expenses. Mass-Save, Inc., D.P.U. 1531, at 11-12 (1983). These expenses must be shown to be prudently incurred and reasonable. Id. The decision-making process in the selection of contractors, the choice of marketing techniques and expenses, and the allowance made for administrative and other operating costs should be documented to demonstrate that the utility has chosen a reasonable means of meeting the program requirements at the lowest cost. Id. The utility should show that a reasonable range of options has been considered before choosing one particular contractor or plan. Id.

Further, the Department has stated that to aid in determining the reasonableness of certain proposed adjustments to test-year operating expenses in rate-case proceedings, all utilities, where possible, must provide analyses comparing these adjustments to those of other investor-owned utilities in New England. Massachusetts Electric Company, D.P.U. 92-78, at 19-20, 25-26, 30

(1992). While recognizing the obvious differences between a rate-case proceeding and an ECS budget-review proceeding, the Department has found that a comparative analysis technique is a useful tool in determining the reasonableness of certain operating expenses. Boston Edison Company, D.P.U. 93-90, at 10 (1993). Thus, as a means of determining the reasonableness of a given company's ECS operating expenses, a company must compare, where possible, its ECS operating expenses against similar expenses of other companies. The company must then explain and justify any costs to serve its customers which are higher than comparable operating expenses of other companies. The Department will consider a company's explanations and justifications in the Department's comparative analysis of ECS budgets.

After completing its review of a utility's proposed ECS expenditures for reasonableness, the Department also must review the utility's proposed ECS surcharge by which the utility is entitled to recover the full cost of the ECS program from its customers. As part of this review, the Department must examine any differences between the amounts collected and the amounts expended on the ECS program by the utility during the prior fiscal year and deduct any expenses that it finds to have been unreasonable. G.L. c. 164 App., § 2-7(f). After deducting any unreasonable expenses, the Department must ensure that the net difference is reflected accurately as an adjustment to the utility's proposed ECS surcharge for the upcoming fiscal year. Id.

V. ANALYSIS AND FINDINGS

A. FY 1995 Expenses

In Boston Edison Company, D.P.U. 94-79 (1994), the Department approved a net operating budget of \$1,563,419 for BECo's FY 1995 ECS program. The budget approval was

based on a one-to-four Unit Building Program goal of 8,000 audits, an equivalent services goal of 14,410, and an MFB goal of auditing 300 buildings (RR-DPU-1, at 4). BECo reported that its actual twelve-month expenditures for FY 1995 were \$1,341,645 (Exh. BE-2, at IV-2.1). The Company provided a justification for all budget line-items that varied by more than \$2,000 from the budget approved in D.P.U. 94-79 (id., at IV-1.17). BECo reported that in FY 1995 it completed 8007 audits in the one-to-four Unit Building Program, provided 14,134 equivalent services, and audited 305 MFB buildings (RR-DPU-1, at 4). Thus, BECo reported that in FY 1995 it achieved its performance goals while modestly underspending its budget.

Based on our review of the record in this proceeding, the Department finds the Company's twelve-month expenditures for FY 1995 to be reasonable and therefore recoverable from its ratepayers.

B. FY 1996 Expenses

In Boston Edison Company, D.P.U. 95-49 (1995), the Department approved a net operating budget of \$1,480,888 for BECo's FY 1996 ECS program. The budget approval was based on a one-to-four Unit Building Program goal of 8,200 audits, an equivalent services goal of 14,999, and a MFB goal of 300 audits (Exh. BE-2, at II.1).

Based on nine months actual operating expenses of \$989,049 and three months estimated operating expenses of \$327,451, BECo projected total expenditures of \$1,316,500 in FY 1996 (id. at III-1.2). BECo further projected that by the end of FY 1996, it will have completed 6,536 audits in the one-to-four Unit Building Program, provided 11,313 equivalent services, and performed 218 audits in the MFB program (id. at II.1). Thus, BECo projects that in FY 1996 it will modestly underspend its budget.

The Company has provided a complete explanation of its expenditures for the first nine months of FY 1996 (id. at V-6.A.1-A.7). The Department finds the \$989,049 of expenditures in these months to be reasonable, and therefore recoverable from ratepayers. The Department will review the Company's actual expenditures for the final three months of FY 1996 in the next annual budget review.

C. Proposed Budget for FY 1997

BECo has provided documentation showing that DOER has approved all goals and components of the Company's one-to-four Unit Building and MFB ECS Programs (Exh. BE-2, at V-1). Furthermore, DOER indicated that the budget is consistent with BECo's approved UIP and program goals for FY 1997 (Exh. DOER-1, at 4). The Department notes that the Company's

filing identifies a cost element for each goal and component of its UIP. In addition, the Company has provided an explanation of the budget expenditures, all of which were listed by line-item account (Exh. BE-2, at III).

The record suggests that the line-item budget expenditures proposed by the Company to meet its FY 1997 goals are reasonable. The record shows that BECo has employed a reasonable decision-making process for contractor selection and choice of marketing techniques. The Company's comparative analysis shows that the Company's cost per audit is \$131.96, and that the Company's FY 1997 ECS-budgeted expenses per audit appear comparable to those of other ECS providers.¹⁵

Accordingly, based on a review of the record, the Department finds that the operating budget of \$1,386,370 for FY 1997 is reasonable, and that the proposed surcharge of \$0.15 per customer bill is appropriate. The Department will review the actual FY 1997 expenditures in the next annual budget review.

¹⁵ The Department encourages companies to analyze their own costs in relation to other companies' similar costs, in order to gain a better understanding of how competitively priced their given energy services, including ECS, are, and to make whatever changes are necessary to become more competitively priced in the future.

VI. ORDER

Accordingly, after due notice, hearing, and consideration, it is

ORDERED: That net operating expenses of \$1,341,645 are approved for Boston Edison Company for the fiscal year July 1, 1994 through June 30, 1995; and it is

FURTHER ORDERED: That net operating expenses of \$989,049 are approved for the first nine months of the fiscal year July 1, 1995 through June 30, 1996; and it is

FURTHER ORDERED: That a net operating budget of \$1,386,370 is approved for Boston Edison Company for the fiscal year July 1, 1996 through June 30, 1997; and it is

FURTHER ORDERED: That an Energy Conservation Service surcharge of \$0.15 per customer bill is approved for Boston Edison Company for the fiscal year July 1, 1996 through June 30, 1997; and it is

FURTHER ORDERED: That if Boston Edison Company is overcollecting by more than ten percent by the end of the third quarter of the fiscal year, the Company must refile for an adjustment to, or elimination of, its surcharge.

By Order of the Department,

Mary Clark Webster, Commissioner

Janet Gail Besser, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).